

December 18, 2006

Dear System Member:

Re: Optional System Proposal

On September 26, 2006, the ASRS sent information on the Optional System Proposal ("Proposal") to all System members and subsequently conducted 17 statewide meetings in October and November 2006 to discuss the Proposal.

The purpose of the Proposal under consideration by the ASRS was to enable System members to transfer to the Defined Benefit Plan and, therefore, receive a reduced but guaranteed benefit. Currently, a portion of a System member's benefit is not guaranteed and must be reduced if the funded status of the System falls below 95 per cent.

The purpose of this letter is to share with you the feedback received by the ASRS from System members, and also to update you on the status of the Proposal.

The results of the feedback indicate limited support from System members to move forward with the Proposal at this time. The tabulation of the member feedback results is shown below. There are a total of 1,945 System members in retired and non-retired status (approximately 1,735 retired, 90 active and 120 inactive and non-retired). A thorough review of responses from System members indicates that members do not support the ASRS moving forward with legislation for the Proposal.

Feedback	Number	% of Total Population	% of Total Respondents
No response	1157	60	N/A
Responding	788	40	N/A

Breakdown of Responding Members

Feedback	Number	% of Total Population	% of Total Respondents
Support Proposal Support as is = 499 Support if modified = 4	503	26	64
Oppose Proposal	244	12	31
Neutral on Proposal (returned form but did not indicate support or oppose)	41	2	5

In addition, the analytical work performed by the ASRS and its actuaries does not suggest the need for any changes to the System's investments or strategies at this time. As a result, the ASRS will not proceed with the Proposal or other similar Proposals during 2007. The ASRS will, of

course, continue to monitor the System's assets and liabilities going forward and determine if changes are required in the portfolio structure, or if other proposals should be considered.

The concerns that were shared in the mailing and at the meetings about demographic risk and investment volatility are still present in the System and the ASRS will continue to closely monitor its operation. At some point in the future, the ASRS may take action to mitigate some of the risk. The actuary to the ASRS will continue to complete an annual valuation of the System each year which will determine the funded status as well as other pertinent financial statistics. In addition, System members will continue to be informed through their annual statements and articles in our *Financial Horizons* publication.

Please understand that the recent activities (studies, analyses, committees, communications, and meetings) to inform you of our concerns are part of an on-going process that underscores the ASRS commitment to do what is in the best interest of its members. The ASRS will continue to operate with the highest fiduciary standards with regard to the System and any actions deemed necessary by the ASRS will be undertaken with due consideration and disclosure to all members whose benefits may be impacted by those decisions.

Finally, I wish to acknowledge the many thoughtful and insightful responses – both written and verbal – received by the ASRS from System members. The time and effort put forth by many of you has been very helpful and is sincerely appreciated. Thank You!

Sincerely,

A handwritten signature in cursive script, appearing to read "P. Matson".

Paul Matson
Director

PM/PK/mj/zk

c: Dr. Keith Meredith, Chair, ASRS
Patrick Klein, ASRS
Susanne Dobel, ASRS
David Cannella, ASRS
Member File